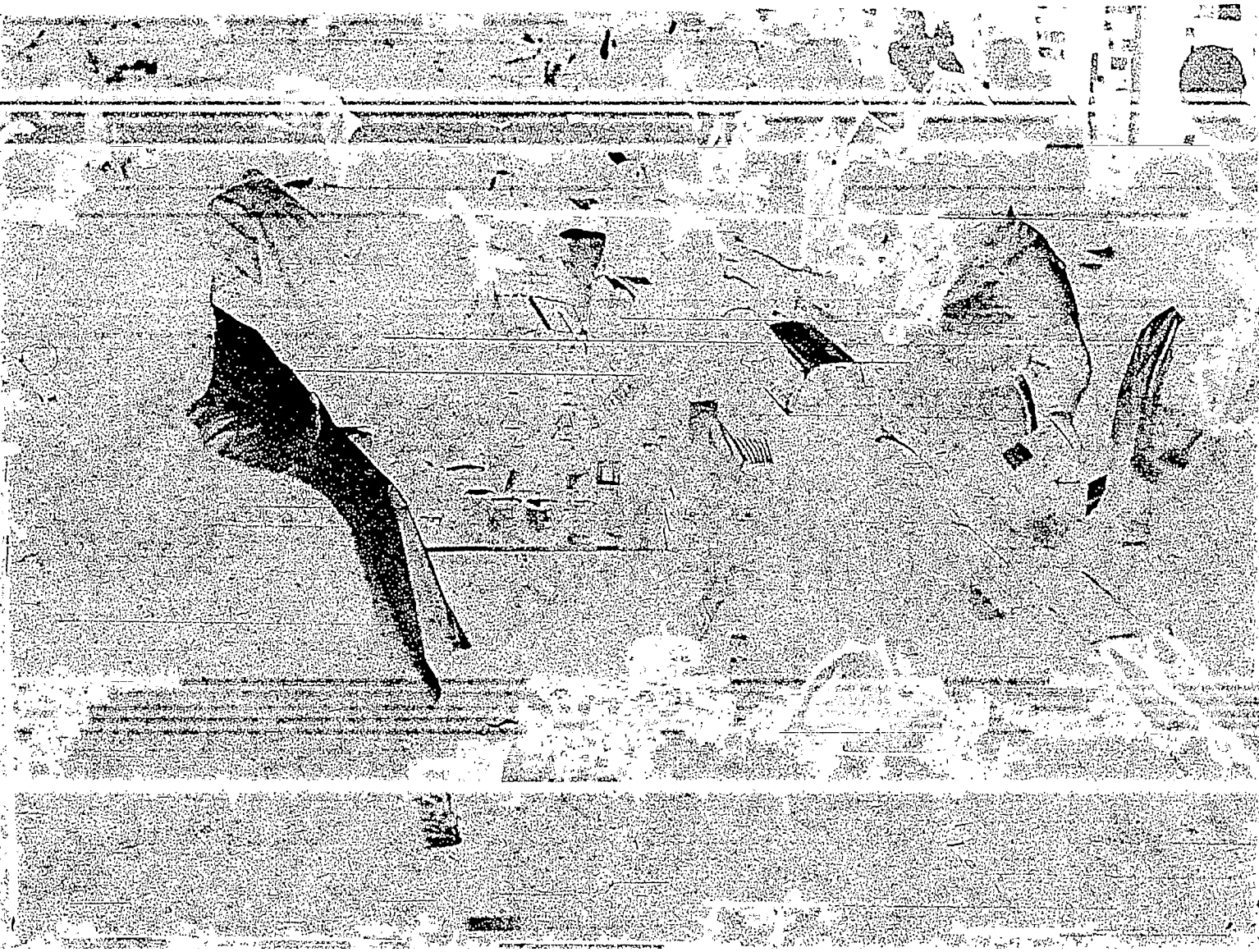
Acme Markets, Incorporated Annual Report -- 1972
America's Corporate Foundation; 1972; ProQuest Historical Annual Reports
pg. 0_1

ACME MARKETS, INC.

ANNUAL REPORT 1972



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CONTENTS

1972 Highlights	1
Report to the Shareholders	3
Year in Review	5
Financial Statements	10
Ten Year Summary	10
Statements of Consolidated Earnings	11
Consolidated Balance Sheets	12
Statements of Changes in Consolidated Financial Position	14
Notes to Financial Statements	15
Accountants' Report	16



GENERAL OFFICES

124 North 15th Street
Philadelphia, Pa. 19101

ANNUAL MEETING

The annual meeting
of shareholders will be held in the
Ballroom of
The Warwick Hotel,
17th and Locust Streets
Philadelphia, Pa. on Wednesday,
June 28, 1972 at 3 PM.

TRANSFER AGENT

Bankers Trust Company
Corporate Agency Division
485 Lexington Avenue
New York, New York 10017

REGISTRAR

First National City Bank
New York, New York

STOCK EXCHANGES

New York Stock Exchange
Philadelphia-Baltimore-Washington
Stock Exchange

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1972 HIGHLIGHTS

Fiscal years ended April 1, 1972 and April 3, 1971

	1972	1971
Sales	**$1,861,588,000**	$1,798,719,000*
Net Earnings	**$12,426,000**	$14,934,000*
Earnings Per Share	**$3.57**	$4.30*
Shareholders' Equity Per Share	**$54.92**	$53.37
Number of Shareholders	**15,884**	16,091
Number of Employees	**36,101**	35,364

RETAIL UNITS IN OPERATION

Food Stores	**779**	787
Rea & Derick Stores	**81**	75
Hy-Lo Stores	**10**	10
Discount Department Stores	**6**	6
Alphy's Coffee Shops and Hardee's Restaurants	**45**	36
Total Food Store Sales Area (square feet)	**9,681,000**	9,474,790

* 53 weeks

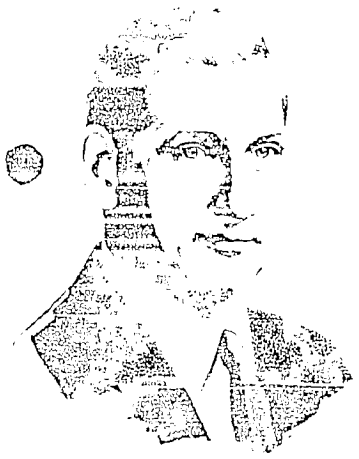
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The Company opened 29 new food stores last year. This is the new 32,760-square-foot Super Saver market on Red Lion Road in Philadelphia. Customers' orders are checked directly from high, cantilevered shopping carts which pass over the checkout counter.

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REPORT TO THE SHAREHOLDERS



JOHN R. PARK



PAUL J. CUPP

Sales for the 52 weeks ended April 1, 1972, increased to $1,861,588,000, an increase of $62,869,000 or 3.5% over the $1,798,719,000 sales volume of the 53-week prior year. Converting the 53-week prior year to a 52-week basis, the increase was 5.5%.

Earnings for the year were $3.57 per share on the average number of shares outstanding, compared to $4.30 adjusted for the last stock dividend. Investment tax credits included in earnings were 44¢ per share, compared to 7¢ the previous year.

Neither sales nor earnings were up to expectations. Our sales increase lagged, especially in the third quarter. However, new merchandising programs introduced in certain Eastern areas during the fourth quarter resulted in an improving sales trend.

Profit margins were narrowed due to several factors. Competitive pressures were particularly intense in some of our important operating areas. Also, labor costs and other expenses continued to rise significantly, even after the inauguration of the President's price-wage program to curb inflation. Fully recognizing the vital necessity of achieving the program's objective, we have given our wholehearted support and cooperation. A special committee was formed immediately to advise and instruct all of our people in the requirements of the regulations so that full compliance could be assured.

On December 17, 1971, James A. Hamill, a vice president of the Company since 1964, was elected Executive Vice President—Sales and Operations. Mr. Hamill brings to this assignment wide experience in the business and the respect of his associates.

In recognition of the responsibility borne by a number of our important management positions, eight operating vice presidents and three staff vice presidents were appointed since the last Annual Meeting. These vice presidents and their responsibilities are listed on the back page of this report.

On June 1, 1972, Edwin A. Colson will retire after 32 years of distinguished service to our Company. Mr. Colson was Secretary for 24 years. John W. Edstrom, an assistant secretary since 1970, and a member of our legal staff since 1966, was elected Secretary effective May 1, 1972.

The year ahead presents many challenges. Competition is severe, but predictions indicate a favorable business climate. Our plans call for a stronger store building program. Alpha Beta should add 15 stores to the 25 now open in its Northern Division. A new, modern distribution center at Milpitas, California, near San Jose, will begin to serve these Northern Division stores.

Greater emphasis will be placed on general merchandise, as a broader line of items will be presented to our customers. Additional growth in the general merchandise field is planned at Value Fair, Inc., our West Coast department store chain. A reorganized management has strengthened this retail subsidiary.

In the Eastern food markets, new, aggressive programs are being introduced, with stronger emphasis on discount operations, to continue the improvement in our sales trend. We are continuing to work at controlling costs and improving our operating productivity. Hopefully, some clarification will be received from the Pay Board when rulings are issued on the several Acme wage contract increases which are pending before it at the present time.

While the plans to generate a higher sales volume may have a near-term adverse effect on profits, management is convinced that our approach is sound. With a growing, modern store system, backed by strong supporting facilities and an enthusiastic, able, and dedicated group of people, we are confident that we can convert this increased sales volume into profitable growth.

Respectfully submitted,

Paul J. Cupp
Chairman
Board of Directors

James A. Hamill
President
and Chief Executive Officer

Philadelphia, Pa. May 24, 1972

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DIVIDENDS

Cash dividends paid by the Company were the highest in its history, totalling $6,831,000, compared with $6,479,000 for the previous year. Fiscal 1972 marked the 30th consecutive year in which a regular quarterly cash dividend was paid. The most recent annual cash dividend rate of $2.00 per year compares with $1.28 in 1962, after adjustment for the cumulative effect of subsequent stock dividends.

A 2% stock dividend was paid on March 31, 1972, the 19th consecutive year in which a stock dividend was declared, and involved the issuance of 68,748 shares of common stock valued at $2,887,000.

FINANCIAL POSITION

Capital expenditures for the year were $39,771,000, an increase from the $30,870,000 of the prior year. Planned capital expenditures will total approximately $25,000,000 during the present year. Working capital increased $3,808,000 from the previous year, to $91,318,000. The ratio of current assets to current liabilities was 1.76 to 1 compared with 1.76 to 1 last year. Working capital needs during the present year will be provided by retained earnings, depreciation and proceeds from the sale and lease back of Company owned properties, supplemented by short-term borrowing.

In March of 1972 the distribution center in Forty Fort, Pennsylvania, which serves the Wilkes-Barre Division, was sold to a group of investors and leased back from them under a long-term lease, with an interest rate less than the Company would have had to pay for new debt. Cash received from this sale was added to general corporate funds and improved the Company's working capital position.

STORE PROGRAM

Twenty-nine new food stores were opened. Of these, eight were Acme markets and five were Super Saver markets. Alpha Beta on the West Coast opened 16 new markets, six of which were in its Northern Division, which serves the San Francisco Bay area. Alpha Beta now operates 25 markets in this fast growing section of California. Rea & Derick, Inc., the Company's Eastern drug subsidiary, added six new stores. Alpha Beta opened three new Alphy's family restaurants, and Mid-Atlantic Hardee, Inc., the East Coast fast-food franchising subsidiary, added six units.

A number of stores were remodeled or enlarged during the year, continuing a program of adding selling space where required and modernizing other stores to provide better customer service. Thirty-five stores were remodeled in the East and additions were made to three. Four smaller markets in the Newark Division were converted to Zip Markets, convenience-type stores. Rea & Derick remodeled seven stores.

During the coming year, the Company plans to add 45 new markets. Fifteen of these will be in Acme's marketing area and 30 will be Alpha Beta markets, 15 of which will be located in its Northern Division. Alpha Beta also plans to add five Alphy's family restaurants on the West Coast. Rea & Derick will open seven new stores. A total of 30 markets will be either remodeled or enlarged during the current fiscal year, seven of which are in the Alpha Beta Division. Rea & Derick plans to remodel or expand three stores.

At the end of the fiscal year the Company had 921 retail units in operation. This included 779 East and West Coast food stores, 91 Rea & Derick and Hy-Lo stores, 6 Value Fair Department Stores and 45 Alphy's and Hardee's Restaurants.

(Bottom) A specially designed electric tram, equipped with a public address system, is used to take children on a tour of the huge new Alpha Beta bakery at La Habra, California (Upper Left) William R. Deeley, president and chief executive officer of Alpha Beta, examines a fresh-baked loaf of specialty bread produced at the bakery. (Upper Right) Hard rolls are produced at the rate of 36,000 per hour on the bakery's combination bread and roll line for hearth goods, the first fully automatic facility of its type in the United States.

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OTHER FACILITIES

The new Alpha Beta bakery, which began operations in August 1971, became fully operative near the end of the fiscal year. The 288,000-square-foot facility, located on a 19 acre tract adjacent to the Alpha Beta Distribution Center, is one of the largest and most fully automated bakeries in the United States, producing a complete line of breads, rolls, hearth and sweet baked goods.

Construction on Alpha Beta's new distribution center in Milpitas, California has been completed, with shipping scheduled to begin near the middle of July. The 521,000-square-foot center will serve the San Francisco Bay, Sacramento and San Joaquin Valley areas.

The general merchandise needs of all Eastern markets are now supplied from a large, modern distribution center near Lancaster, Pennsylvania, operated by Skyline Distributors, Acme's general merchandise division. The 200,000-square-foot facility features a semi-automatic selection system.

A new freezer warehouse, constructed adjacent to the Syracuse Distribution Center, was completed and occupied during the summer of 1971. The 23,000-square-foot facility enables the division to greatly expand its line of frozen foods.

A 60,000-square-foot addition to the Rea & Derick drug supply warehouse in Northumberland, Pennsylvania was completed during the year. Other capital improvements include a major addition to the waste treatment facility at the Lincoln, Nebraska processing plant, which will help assure continued compliance with that community's ecological standards.

PERSONNEL DEVELOPMENT

Both current and long-term needs are constantly being focused upon in the Company's personnel training and development activities. An on-going program of courses, seminars and workshops is designed to apprise management personnel of the latest industry techniques and developments and to equip them with knowledge and skills which will help them function with maximum effectiveness.

In a unique program sponsored by Alpha Beta, in cooperation with a local college, eligible West Coast employees can earn associate degrees in several industry-related fields by attending Company-sponsored courses.

The Company continues its aggressive store-level training program through which both new and experienced employees receive training in such areas as cash control, checking, produce handling, and price marking.

Particular emphasis is placed on creating an atmosphere in which employees at all levels are encouraged and helped in their efforts toward individual evaluation and development.

More and more employees are acquiring the Company's common stock through a monthly investment plan made available by Merrill Lynch, Pierce, Fenner & Smith, Inc. Under the plan, introduced about one year ago, eligible full-time employees may purchase the Company's common stock, at market, through a payroll deduction plan.

Acme is proud of its long-service employees. Over 3,000 employees have been with the Company for 25 years or longer.

CUSTOMER SERVICE

Advancements in the Company's computerized ordering, selecting, delivery and inventory systems, in the various divisions, helped improve customer service.

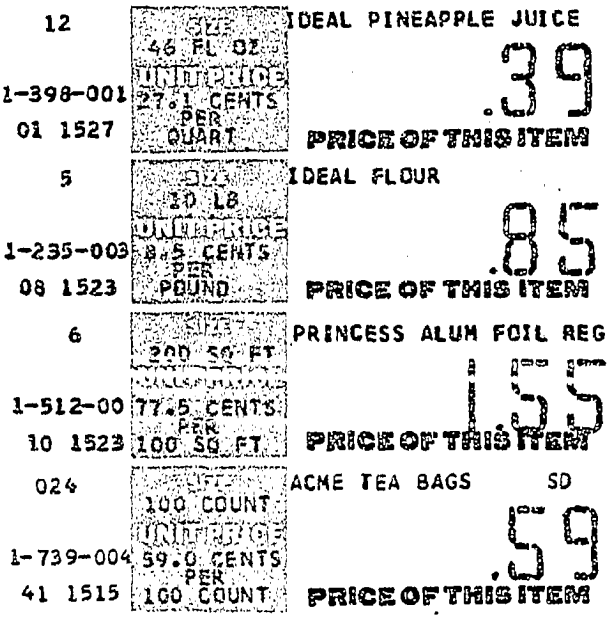
Unit pricing was introduced in four Eastern divisions during the year, including the Philadelphia Division, and will shortly be extended to all Eastern food stores. Alpha Beta had introduced the program earlier. Unit pricing helps customers compare values by showing prices in terms of an appropriate standard unit, such as price per pound, per quart, per hundred count, or per

Rea & Derick, Inc., opened six new stores last year, bringing the total number of units in the subsidiary to 81. Shown above is Rea & Derick's new Wyoming Mall store near Wilkes-Barre, Pa.

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hundred square feet. Shoppers are able to compare different brands of the same product, or different sizes of the same brand, and choose the best value from a price standpoint.



Acme's Unit Price Labels

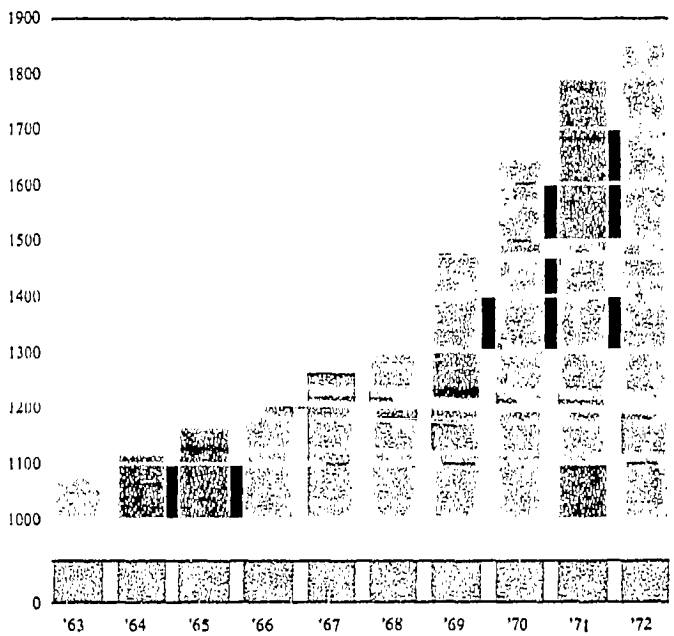
In other actions designed to improve service and achieve better consumer relations, the Company improved its *freshness dating* program. Sales expiration dates are shown in clear text on all of the Company's own brand perishable and semi-perishable products.

To make consumers more aware of the need for a balanced diet, the Company is cooperating with the Nutrition Awareness Campaign, sponsored by the Food Council of America. The campaign stresses the fact that people should eat foods in the *basic four* groups each day.

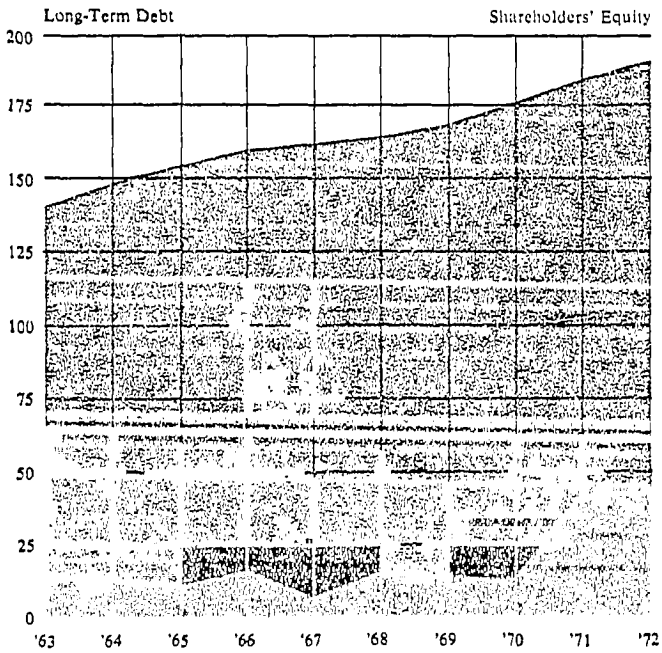
Mrs. Virginia H. Knauer, special assistant to the President for consumer affairs, explains the concept of unit pricing to granddaughter Nancy Knauer, age 10, at a North Philadelphia Acme market.

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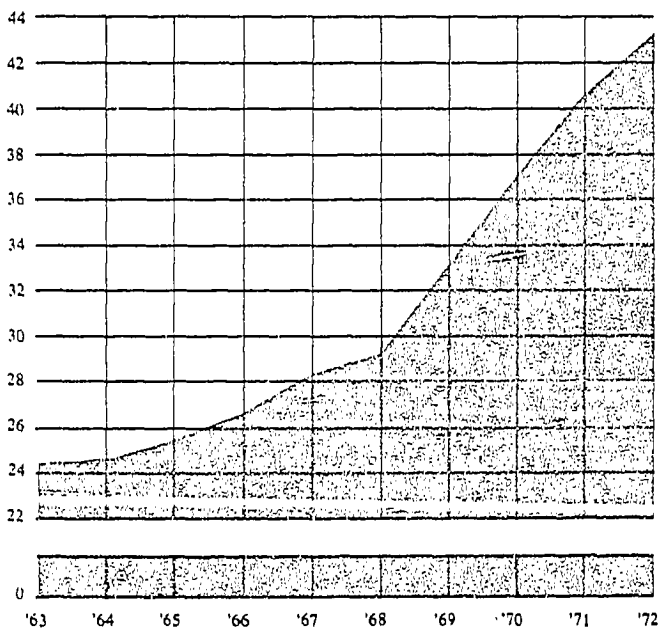
SALES
Millions of Dollars



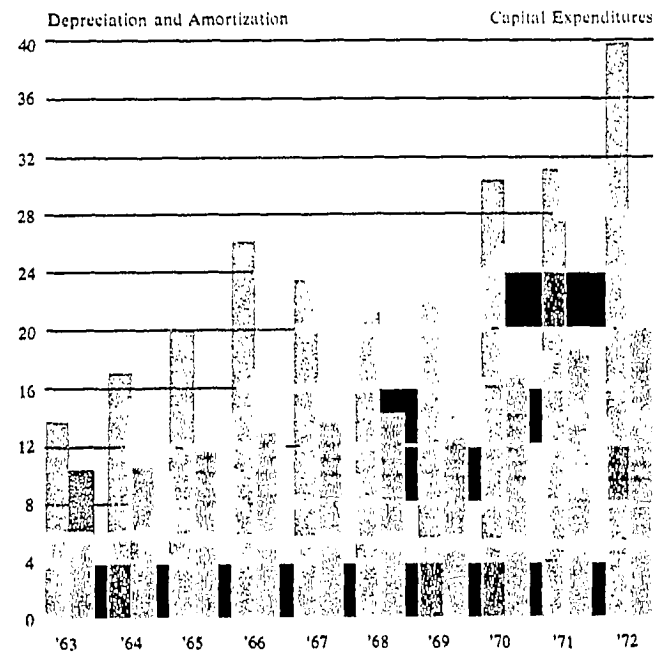
SHAREHOLDERS' EQUITY AND LONG-TERM DEBT
Millions of Dollars



AVERAGE WEEKLY SALES PER FOOD STORE
Thousands of Dollars



CAPITAL EXPENDITURES AND DEPRECIATION
Millions of Dollars



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FINANCIAL STATEMENTS
TEN YEAR SUMMARY (a)

All dollar amounts are expressed in thousands, except per share and per sales dollar figures.

(a) Fiscal year ends the Saturday closest to March 31.

(b) 53 week year; other years 52 weeks.

(c) Based on average number of shares outstanding during the year, adjusted for subsequent stock dividends.

(d) In each of the ten years, cash dividends were declared on shares of common stock, then outstanding, at the rate of $2.00 per share. As computed below, per share cash dividends have been adjusted for subsequent stock dividends.

(e) Based on number of shares of stock outstanding at year-end, adjusted for subsequent stock dividends.

	1972	1971(b)	1970	1969	1968	1967	1966	1965(b)	1964	1963
Sales	$1,861,588	1,798,719	1,650,249	1,479,522	1,302,075	1,261,137	1,206,807	1,161,198	1,118,685	1,081,061
Earnings before income taxes	21,226	30,044	25,830	22,271	15,962	16,655	18,848	24,314	28,120	27,091
Federal and state income taxes	8,800	15,110	13,300	11,270	7,332	7,067	8,281	11,430	14,530	14,030
Net earnings	12,426	14,934	12,530	11,001	8,630	9,588	10,567	12,884	13,590	13,061
Cash dividends	6,831	6,479	6,142	5,927	5,815	5,564	5,348	5,127	4,924	4,680
Earnings for year retained in business	5,595	8,455	6,388	5,074	2,815	4,024	5,219	7,757	8,666	8,381
Net earnings per sales dollar	0.67¢	0.83¢	0.76¢	0.74¢	0.66¢	0.76¢	0.88¢	1.11¢	1.21¢	1.21¢
Earnings per share of common stock (c)	3.57	4.30	3.62	3.18	2.50	2.76	3.02	3.76	3.91	3.77
Cash dividends per share of common stock (d)	1.96	1.86	1.79	1.76	1.73	1.65	1.57	1.49	1.42	1.35
Stock dividends	2%	5%	4%	2%	2%	5%	5%	5%	5%	5%
Current assets	211,454	202,131	194,101	169,766	155,835	139,024	145,456	140,200	140,533	131,413
Current liabilities	120,136	114,621	134,950	102,428	85,819	81,219	72,420	63,901	62,267	56,396
Working capital	91,318	87,510	59,151	67,338	70,016	57,805	73,036	76,299	78,266	75,017
Current ratio	1.76	1.76	1.44	1.66	1.82	1.71	2.01	2.19	2.26	2.33
Plant and equipment additions	39,771	30,870	30,667	22,625	20,856	23,638	26,198	20,085	17,590	13,505
Provision for depreciation and amortization	20,130	18,630	16,750	15,018	14,257	13,726	12,802	11,834	10,843	10,464
Net plant and equipment	154,086	148,292	136,715	121,142	114,646	114,221	110,602	97,881	89,673	83,022
Total assets	370,020	354,623	336,448	298,998	277,931	260,861	259,003	240,461	232,968	217,327
Long-term debt, less current instalments	45,003	42,724	12,656	14,306	14,844	5,191	15,743	11,737	12,910	14,080
Common shares outstanding at year-end	3,486,958	3,398,714	3,238,972	3,103,900	3,041,165	2,987,254	2,869,415	2,680,992	2,588,208	2,459,730
Common shareholders' equity:										
Total	191,489	185,030	176,713	169,898	164,776	162,290	159,369	154,263	148,947	140,096
Per share (e)	54.92	53.37	50.94	49.14	47.69	46.88	45.65	45.04	42.90	40.43
Number of retail stores at year-end:										
Food stores	779	787	804	813	827	827	854	878	883	862
Other stores	97	91	77	74	67	63	50	51	—	—
Total stores	876	878	881	887	894	890	904	929	883	862

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STATEMENTS OF CONSOLIDATED EARNINGS

ACME MARKETS, INC. AND SUBSIDIARIES

Fiscal Years ended April 1, 1972 and April 3, 1971

CURRENT EARNINGS	1972 (52 weeks)	1971 (53 weeks)
Sales	**$1,861,588,000**	1,798,719,000
Cost of sales and operating expenses:		
Cost of merchandise sold, including warehousing and transportation expenses	**1,469,259,000**	1,419,313,000
Wages, rents, advertising, administrative and other operating expenses	**348,503,000**	327,949,000
Depreciation and amortization (note 2)	**20,130,000**	18,630,000
	1,837,892,000	1,765,892,000
Operating profit	**23,696,000**	32,827,000
Other income (deductions):		
Non-operating items, net	**1,605,000**	1,006,000
Interest expense	**(4,075,000)**	(3,789,000)
Earnings before income taxes	**21,226,000**	30,044,000
Federal and state income taxes (note 4)	**8,800,000**	15,110,000
Net earnings	**$ 12,426,000**	14,934,000
Net earnings per share of common stock (1971 adjusted for stock dividend paid in 1972)	**$3.57**	4.30

EARNINGS RETAINED FOR USE IN THE BUSINESS		
Balance at beginning of year	**$ 52,257,000**	50,808,000
Net earnings for the year	**12,426,000**	14,934,000
	64,683,000	65,742,000
Deduct:		
Cash dividends—$2 a share (equivalent to $1.96 on increased shares after issuance of stock dividends; 1971—$1.86)	**6,831,000**	6,479,000
Stock dividend—2% (1971—5%)	**2,887,000**	7,006,000
	9,718,000	13,485,000
Balance at end of year	**$ 54,965,000**	52,257,000

See accompanying notes to financial statements.

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CONSOLIDATED BALANCE SHEETS

April 1, 1972 and April 3, 1971

ASSETS	1972	1971
Current assets:		
Cash	$ 19,434,000	36,842,000
Short-term marketable securities, at cost	15,428,000	2,000,000
Receivables	9,238,000	11,374,000
Recoverable Federal and state income taxes	3,389,000	—
Inventories, at lower of cost (average or first-in, first-out) or market	145,981,000	135,268,000
Prepaid expenses	7,106,000	8,815,000
Properties to be developed and sold within one year	10,878,000	7,832,000
Total current assets	211,454,000	202,131,000
Investments, at cost or less	3,253,000	3,515,000
Plant and equipment, at cost:		
Land	17,303,000	20,588,000
Buildings	66,164,000	69,424,000
Machinery, equipment and fixtures	147,924,000	133,545,000
Leasehold costs and improvements	24,768,000	23,022,000
	256,159,000	246,579,000
Less accumulated depreciation and amortization (note 2)	102,073,000	98,287,000
Net plant and equipment	154,086,000	148,292,000
Deferred charges, etc.	1,227,000	685,000
	$370,020,000	354,623,000

See accompanying notes to financial statements.

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LIABILITIES AND SHAREHOLDERS' EQUITY	1972	1971
Current liabilities:		
Notes payable, short-term	$ —	496,000
Current instalments of long-term debt (note 3)	2,344,000	2,695,000
Accounts payable	80,454,000	79,532,000
Accrued expenses	31,138,000	26,298,000
Federal and state income taxes	—	5,600,000
Construction loan on property to be sold	6,200,000	—
Total current liabilities	120,136,000	114,621,000
Long-term debt, excluding current instalments (note 3)	45,093,000	42,724,000
Deferred income taxes (note 4)	11,943,000	10,920,000
Reserve for self insurance, deferred investment credit, etc.	1,449,000	1,328,000
Shareholders' equity:		
Preferred stock of $1 par value. Authorized 1,000,000 shares; issued none	—	—
Common stock of $1 par value. Authorized 10,000,000 shares; issued 3,506,834 shares (1971—3,423,433 shares) (note 5)	3,507,000	3,423,000
Capital in excess of par value of common stock (note 6)	133,889,000	130,455,000
Earnings retained for use in the business, less amount capitalized through stock dividends	54,965,000	52,257,000
	192,361,000	186,135,000
Less 19,876 shares common treasury stock, at cost (1971—24,719 shares)	872,000	1,105,000
Total shareholders' equity	191,489,000	185,030,000
	$370,020,000	354,623,000

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STATEMENTS OF CHANGES IN CONSOLIDATED FINANCIAL POSITION

Fiscal Years Ended April 1, 1972 and April 3, 1971

	1972 (52 weeks)	1971 (53 weeks)
SOURCE:		
Net earnings	$ 12,426,000	14,934,000
Charges against net earnings not involving the expenditure of funds:		
Depreciation and amortization	20,130,000	18,630,000
Deferred income taxes	1,023,000	5,000
Other	56,000	31,000
Total funds provided from operations	33,635,000	33,600,000
Long-term borrowing:		
Mortgage loan on Alpha Beta bakery	4,730,000	5,000,000
Sinking fund debentures	—	25,000,000
Other	440,000	2,827,000
Distribution centers sold or to be sold and leased back	9,562,000	—
Other disposals of properties	3,621,000	1,696,000
Proceeds from sales of common stock pursuant to exercise of options	562,000	114,000
Proceeds from sales of 5,234 shares common treasury stock	289,000	—
Miscellaneous, net	797,000	113,000
Total source of funds	53,636,000	68,350,000
DISPOSITION:		
Expended for plant and equipment	39,771,000	30,870,000
Long-term debt becoming due within one year	2,890,000	2,759,000
Cash dividends	6,831,000	6,479,000
Investments and deferred charges (reduction)	336,000	(1,401,000)
Plant and equipment of companies acquired	—	1,032,000
Purchase of 5,234 shares common treasury stock	—	252,000
Total disposition of funds	49,828,000	39,991,000
Increase in working capital	$ 3,808,000	28,359,000
CHANGES IN WORKING CAPITAL:		
Increase (decrease) in current assets:		
Cash and marketable securities	$ (3,980,000)	(1,654,000)
Inventories	10,713,000	2,368,000
Properties to be developed and sold within one year	3,046,000	5,243,000
Other current assets	(456,000)	2,073,000
	9,323,000	8,030,000
Increase (decrease) in current liabilities:		
Notes payable and current instalments of long-term debt	(847,000)	(21,596,000)
Accounts payable, accrued expenses and taxes	162,000	1,267,000
Construction loan	6,200,000	—
	5,515,000	(20,329,000)
Increase in working capital	$ 3,808,000	28,359,000

See accompanying notes to financial statements.

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NOTES TO FINANCIAL STATEMENTS

ACME MARKETS, INC. AND SUBSIDIARIES

(1) Principles of Consolidation. The consolidated financial statements include the accounts of the company and its subsidiaries, all wholly-owned.

During fiscal year 1971, two small retail companies were acquired for cash. In fiscal 1972, a minor subsidiary was formed. The accounts of such companies are included in consolidation from dates of acquisition or formation.

(2) Depreciation Policy. Depreciation and amortization charged to earnings for financial statement purposes are generally computed using the straight-line method applied to individual property items. However, for income tax purposes, depreciation is computed by accelerated methods applied to composite groupings of assets.

(3) Long-term Debt. A summary of long-term debt at April 1, 1972 and April 3, 1971 is shown below:

	1972	1971
9⅞ % sinking fund debentures due August 1, 1990	**$25,000,000**	25,000,000
9½ % mortgage loan due December 1, 1996	**9,660,000**	5,000,000
5¾ % notes payable due August 1, 1975	**5,600,000**	7,200,000
Other notes payable	**2,980,000**	3,886,000
Purchase agreement	**4,107,000**	4,333,000
	47,347,000	45,419,000
Current instalments	**2,344,000**	2,695,000
Long-term	**$45,003,000**	42,724,000

Sinking fund payments, sufficient to retire $1,560,000 principal amount of the 9⅞ % sinking fund debentures, are due annually beginning August 1, 1975.

The 9½ % mortgage loan is payable in monthly instalments of $100,000 through January 1, 1984 and $40,000 thereafter (applied first to interest and then to principal) and is secured by the Alpha Beta bakery real estate and fixtures.

The 5¾ % notes are to be repaid in equal quarterly instalments of $400,000.

The other notes payable bear interest at various rates, generally from 5¾ % to 10%, are to be repaid by 1988 and are in part secured by deeds of trust on certain real estate. The purchase agreement relates to a distribution center property and requires equal semi-annual payments through 1986 applied first to interest (currently 2⅞ %) and the remainder to principal.

The various loan agreements impose certain restrictions with respect to maintenance of working capital, payment of dividends and purchase of capital shares. Under the most restrictive covenant, earnings retained for use in the business in the approximate amount of $32,900,000 at April 1, 1972 were free of restrictions.

(4) Income Taxes. In accounting for income taxes, the company recognizes the tax effects of all timing differences, principally relating to accelerated depreciation and reserves not currently tax deductible. For the year ended April 1, 1972, $1,023,000 (1971—$5,000) was added to the deferred account for taxes not currently payable.

Federal income tax expense has been reduced by $1,530,000 and $235,000 for the years 1972 and 1971, respectively, by reason of the investment credit provisions of the Revenue Act. Credits for 1964 and prior, which were deferred, are being amortized over the estimated lives of the related assets.

Federal income tax returns of the company have been examined by the Internal Revenue Service through fiscal 1968. In regard to fiscal years 1963–1968, the examining agents have proposed adjustments, in addition to those already settled and paid by the company, principally the extension of lives used in computing depreciation of buildings and leasehold improvements, which the company is contesting. Any additional tax related thereto would have no material effect on net earnings or retained earnings because such adjustments would represent timing differences and payments would be applied against deferred income taxes.

(5) Stock Options. Under the company's stock option plans approved by the shareholders in 1952 and 1964, there were outstanding at April 1, 1972 options granted to officers and key management employees to purchase 66,273 shares common stock at prices ranging from $34.11 to $50.08, such prices being either 95% or 100% of market price on the respective dates of granting, adjusted for subsequent stock dividends. The options are exercisable on a cumulative basis over a period of five years or less and expire on or before January 11, 1976. The changes in options outstanding during the two years are summarized as follows:

	1972	1971
Shares under option at beginning of year	**94,895**	101,107
Additions (deductions):		
Options granted	**—**	8,600
Options exercised	**(14,653)**	(2,978)
Options expired or terminated	**(15,252)**	(16,461)
Options increased by reason of stock dividends	**1,283**	4,627
Shares under option at end of year (at an average option price of $38.46 at April 1, 1972)	**66,273**	94,895

Under the 1964 option plan at April 1, 1972 an additional 63,426 shares common stock were reserved for future option grants.

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(6) Capital in Excess of Par Value of Common Stock. Changes in capital in excess of par value of common stock are as follows:

	1972	1971
Balance at beginning of year	$130,455,000	123,501,000
Excess of assigned value over par value of 68,748 shares common stock issued as a stock dividend (1971-162,925 shares)	2,819,000	6,843,000
Excess of sales proceeds over par value of 14,653 common shares sold pursuant to exercise of stock options (1971-2,978 shares)	547,000	111,000
Excess of proceeds over cost of common treasury shares sold	55,000	—
Miscellaneous	13,000	—
Balance at end of year	$133,889,000	130,455,000

(7) Lease Commitments. At April 1, 1972 the company and subsidiaries were lessees under 909 leases, including 46 leases for stores not yet opened, covering retail locations and certain distribution center properties. Rent expense was $25,536,000 and $24,245,000 for fiscal years 1972 and 1971, respectively. Aggregate future rental commitments (excluding taxes, insurance and maintenance expenses where payable by the lessee) are approximately as follows for the periods indicated:

April 1, 1972—March 31, 1977	$121,605,000
April 1, 1977—March 31, 1982	88,789,000
April 1, 1982—March 31, 1987	58,249,000
April 1, 1987—March 31, 1992	34,809,000
After March 31, 1992	7,853,000

Most of the leases contain renewal options which give the company the right to extend the lease for varying additional periods, often at reduced rentals.

(8) Pension Plans. Substantially all employees of the company and its subsidiaries are covered by funded pension plans. Employees who are members of bargaining units are covered by union-negotiated pension plans to which the company makes contributions based on hours worked. For other eligible employees, the company provides pension benefits through group annuity contracts with a life insurance company. The total charge to earnings for all plans (including amortization of prior service cost over periods ranging to 40 years) for the year ended April 1, 1972 was approximately $10,505,000 compared with $8,394,000 for the preceding fiscal year.

ACCOUNTANTS' REPORT

PEAT, MARWICK, MITCHELL & CO.
CERTIFIED PUBLIC ACCOUNTANTS
1500 WALNUT STREET
PHILADELPHIA, PA. 19102

The Shareholders and
Board of Directors
Acme Markets, Inc.:

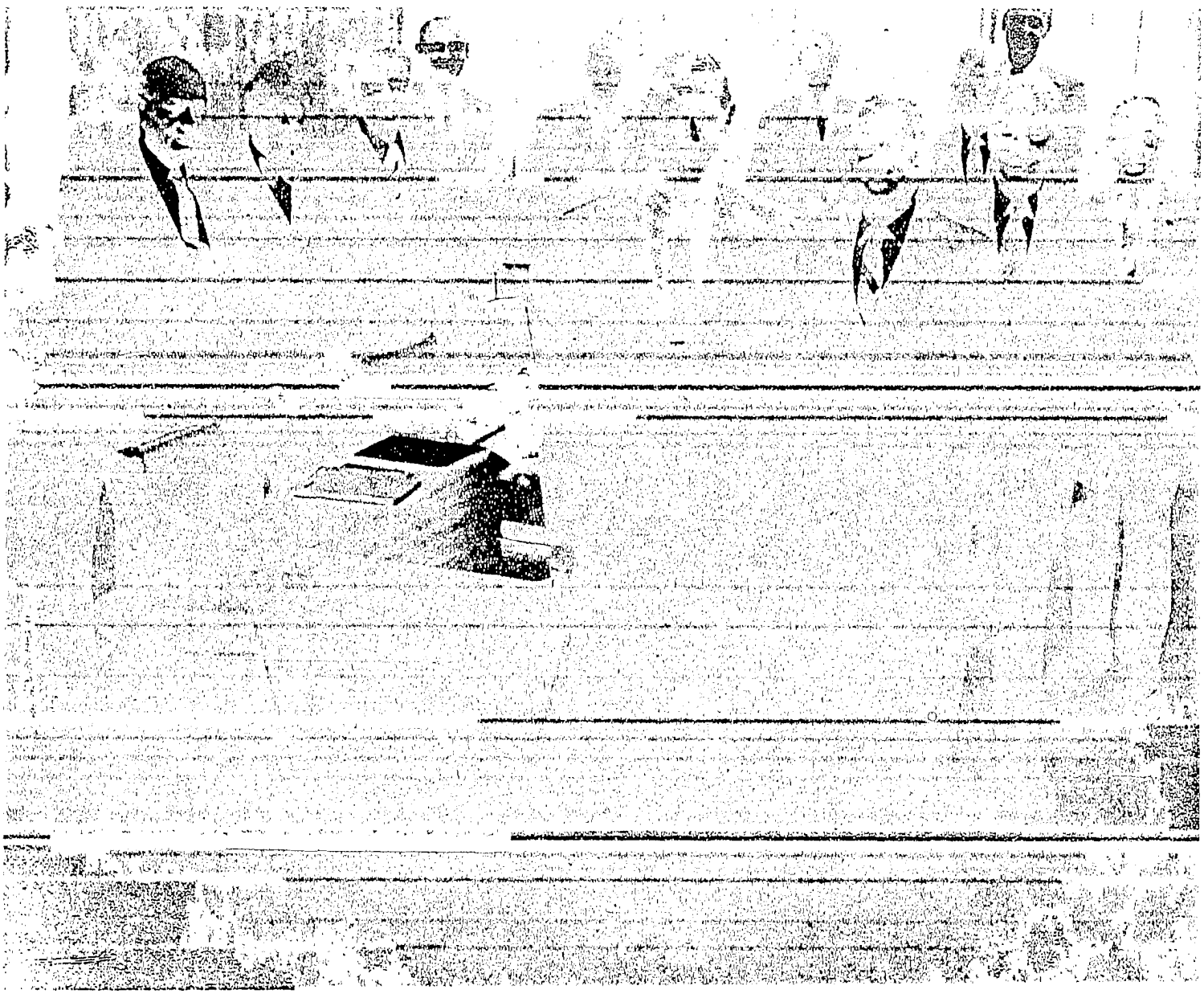
We have examined the consolidated balance sheets of Acme Markets, Inc. and subsidiaries as of April 1, 1972 and April 3, 1971 and the related statements of earnings and changes in financial position for the fiscal years then ended. (The year ended April 3, 1971 includes fifty-three weeks.) Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of Acme Markets, Inc., and subsidiaries at April 1, 1972 and April 3, 1971 and the results of their operations and changes in financial position for the fiscal years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

May 15, 1972

Peat, Marwick, Mitchell & Co.

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The March meeting of the Board of Directors was held at the Company's general merchandise (non-foods) distribution center at Lancaster, Pa. (above). After the meeting, the Directors toured the recently completed facility. From left, around the table, Paul J. Cupp, A. J. Faulhaber, Arthur C. Kaufmann, A. Kohr Sprenkle, James A. Hamill, Orvel Sebring, William R. Deeley, James K. Robinson, Jr., A. E. Gilfillan, Edward J. Dwyer, Thomas T. Oyler, E. A. Colson, secretary (retired June 1, 1972) and John R. Park. Claude W. Edwards was not present.

DIRECTORS

James K. Robinson, Jr., *Vice President*
John R. Park, *President and Chief Executive Officer*
Paul J. Cupp, *Chairman, Board of Directors*
A. J. Faulhaber, *Vice President*
Arthur C. Kaufmann, *Chairman, Board of Directors, Arthur C. Kaufmann and Associates, Inc.*
A. Kohr Sprenkle, *Vice President*
Claude W. Edwards, *Vice Chairman, Board of Directors*
A. E. Gilfillan, *Vice President and Assistant Secretary*
James A. Hamill, *Executive Vice President*
Thomas T. Oyler, *Executive Vice President*
Edward J. Dwyer, *Chairman and Chief Executive Officer, ESB Incorporated*
William R. Deeley, *President and Chief Executive Officer, Alpha Beta Acme Markets, Inc.*
Orvel Sebring, *Partner, Morgan Lewis & Bockius*

CORPORATE OFFICERS

Paul J. Cupp, *Chairman, Board of Directors*
Claude W. Edwards, *Vice Chairman, Board of Directors*
John R. Park, *President and Chief Executive Officer*
James A. Hamill, *Executive Vice President*
Thomas T. Oyler, *Executive Vice President*
James K. Robinson, Jr., *Vice President*
A. J. Faulhaber, *Vice President*
A. Kohr Sprenkle, *Vice President*
A. E. Gilfillan, *Vice President and Assistant Secretary*
John G. C. Fuller, *Treasurer*
C. Herbert Fry, *Controller*
John W. Edstrom, *Secretary*
Rowland G. Weber, *Assistant Secretary*
Ellen M. Campbell, *Assistant Treasurer*

OPERATING AND STAFF VICE PRESIDENTS

Ralph S. Bromer, Jr., *Labor Relations*
E. Paul Hasler, *Newark Division*
G. Philip Helsby, *Philadelphia Division*
Donald H. Kohler, *Wilkes-Barre Division*
Robert L. Mann, *New York Division*
Robert W. McCahan, *Baltimore Division*
Lee J. Pergiel, *Grocery Manufacturing & Processing*
Hall Shultz, *Personnel*
James A. Trolier, *Skyline Distributors*
Rowland G. Weber, *Insurance and Benefit Plans*
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